MULTIMEDIA UNIVERSITY

STUDENT ID NO

MULTIMEDIA UNIVERSITY

FINAL EXAMINATION

TRIMESTER 3, 2022/2023

PEM0034 – ESSENTIALS OF MACROECONOMICS

(Foundation in Management)

4 OCTOBER 2023
2.30 p.m. - 4.30 p.m.
(2 Hours)

INSTRUCTIONS TO STUDENTS

1. This question paper consists of **NINE (9) pages** excluding cover page.
2. Answer **ALL FIFTY (50)** multiple choice questions. Each question carries 2 marks.
3. The answers for multiple choice questions should be shaded on the OMR sheet.

MULTIPLE CHOICE QUESTIONS [100 MARKS]

Instructions: Answer ALL questions in this section. Shade the answers on the OMR sheet.

1. The term inflation is used to describe a situation in which _____.
   A. incomes in the economy are increasing
   B. the overall price level in the economy is continuously increasing
   C. stock-market prices are rising
   D. the interest rate in the economy is growing rapidly

2. The consumer price index _____.
   A. uses a fixed market basket for all years in the series
   B. is also called the GDP price index
   C. measures changes in the prices of a market basket of some 50,000 goods and services
   D. is adjusted monthly for changes in consumer spending patterns

3. The CPI was 117.6 in one year and 121.3 the following year. Approximately how much did prices change between the two years?
   A. 3.7 percent
   B. 3.15 percent
   C. 0.03 percent
   D. 1.03 percent

4. Economists all agree that _____.
   A. neither high inflation nor moderate inflation is very costly
   B. both high and moderate inflation are quite costly
   C. high inflation is costly, but disagree about the costs of moderate inflation
   D. moderate inflation is as costly as high inflation

5. If too much money is chasing too few goods, the resulting inflation is known as _____.
   A. stagflation
   B. cost-push inflation
   C. demand-pull inflation
   D. import-push inflation

6. High and unexpected inflation has a greater cost _____.
   A. for those who save than those who borrow
   B. for those who hold a little money than for those who hold a lot of money
   C. for those whose wages increase by as much as inflation than those who are paid a fixed nominal wage
   D. for savers in low-income tax brackets than for savers in high income-tax brackets

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7. When prices are falling, economists say that there is _____.
   A. disinflation
   B. deflation
   C. a contraction
   D. an inverted inflation

8. An increase in the price level makes the value of money _____.
   A. increase, so people want to hold more of it
   B. increase, so people want to hold less of it
   C. decrease, so people want to hold more of it
   D. decrease, so people want to hold less of it

9. The price index in the first year is 150; in the second year it is 160; in the third year it is 175. The inflation rate is about _____.
   A. 1.07 percent between the first and second years, and 1.09 percent between the second and third years
   B. 5.4 percent between the first and second years, and 9.4 percent between the second and third years
   C. 6.7 percent between the first and second years, and 9.4 percent between the second and third years
   D. 10 percent between the first and second years, and 1.09 percent between the second and third years

10. Inflation causes the redistribution of income or wealth. Find which of the following groups stand to gain from inflation.
   A. Debtors
   B. Pensioners
   C. Creditors
   D. Savers

11. Estimate which of the following is a common cause of demand-pull inflation.
   A. Decreased consumer spending
   B. A decrease in the money supply
   C. Increased government spending
   D. An increase in production costs

12. In response to rising inflation, a government decides to increase interest rates. This action is an example of which policy?
   A. Expansionary fiscal policy
   B. Contractionary monetary policy
   C. Supply-side policy
   D. Quantitative easing

Continued...

13. When a government reduces its overall spending and increases taxes to reduce inflation. Describe which type of policy is implemented by the government.
    A. Contractionary monetary policy
    B. Contractionary fiscal policy
    C. Supply-side policy
    D. Expansionary monetary policy

14. Find which of the following actions by a central bank is consistent with an anti-inflationary monetary policy.
    A. Buying government bonds
    B. Raising the reserve requirement for banks
    C. Lowering the discount rate
    D. Implementing quantitative easing

15. Find which policy tool allows a government to directly control the money supply and, consequently, inflation.
    A. Fiscal policy
    B. Supply-side policy
    C. Monetary policy
    D. Exchange rate policy

16. "Full employment" is said to exist when the unemployment rate equals _____.
    A. zero
    B. the cyclical unemployment rate
    C. the structural unemployment rate
    D. the natural unemployment rate

17. Persons who are retired or engaged in own-home housework are illustrated to be in which of the following categories?
    A. in the civilian labour force
    B. not in the labour force
    C. employed
    D. unemployed

18. The unemployment due to changes in the types of skills employers require is called _____unemployment.
    A. structural
    B. cyclical
    C. natural
    D. frictional

Continued...

19. If the economy were encountering a severe recession, proper monetary and fiscal policies would call for _____.
   A. selling government securities, raising the reserve ratio, lowering the discount rate, and a budgetary surplus
   B. buying government securities, reducing the reserve ratio, reducing the discount rate, and a budgetary deficit
   C. buying government securities, raising the reserve ratio, raising the discount rate, and a budgetary surplus
   D. buying government securities, reducing the reserve ratio, raising the discount rate, and a budgetary deficit

20. The labour force equals the _____.
   A. number of people who are employed
   B. number of people who are unemployed
   C. number of people employed plus the number of people unemployed
   D. adult population

21. Find which of the following would be counted as unemployed according to official statistics.
   A. George, a full-time student who is not looking for work
   B. Muthu, who is on temporary layoff
   C. Ahmad, who has retired and is not looking for work
   D. All of the above would be counted as unemployed.

22. Find who would be included in the labour force.
   A. Karen, who works most of the week in a steel factory
   B. Leela, who is waiting for her new job at the bank to start
   C. David Ng, who does not have a job, but is looking for work
   D. All of the above are included in the labour force.

23. If the central bank increases the money supply, in the short run, prices _____.
   A. rise and unemployment falls
   B. fall and unemployment rises
   C. and unemployment rise
   D. and unemployment fall

24. If the unemployment rate is 6 percent and the natural rate of unemployment is 3 percent, then the _____.
   A. frictional unemployment rate is 6 percent
   B. cyclical unemployment rate and the frictional unemployment rate together are 9 percent
   C. cyclical unemployment rate is 3 percent
   D. natural rate of unemployment will eventually increase

Continued...

25. Cyclical unemployment is closely associated with _____.
   A. long-term economic growth
   B. short-run ups and downs of the economy
   C. fluctuations in the natural rate of unemployment
   D. changes in the minimum wage

26. In 2021, the Japanese adult non-institutionalised population was 109.684 million, the labor force was 65.760 million, and the number of people employed was 62.630 million. According to these numbers, the Japanese labour-force participation rate and unemployment rate were about _____.
   A. 60% and 2.9%
   B. 60% and 4.8%
   C. 57.1% and 2.9%
   D. 57.1% and 4.8%

27. Tommy loses his job and immediately begins looking for another. Other things the same, the unemployment rate _____.
   A. increases, and the labor-force participation rate decreases
   B. increases, and the labor-force participation rate is unaffected
   C. is unaffected, and the labor-force participation rate increases
   D. decreases, and the labor-force participation rate is unaffected

28. Unemployment that results because it takes time for workers to search for the jobs that best suit their tastes and skills is called _____.
   A. the natural rate of unemployment
   B. cyclical unemployment
   C. structural unemployment
   D. frictional unemployment

29. Find which of the following policies would stabilization policy activists would support when the economy is experiencing unemployment above the natural rate.
   A. A decrease in the money supply
   B. A reduction in tax rates
   C. A decrease in government purchases
   D. None of the above is correct

30. Providing training for unemployed individuals is primarily intended to reduce _____.
   A. frictional unemployment
   B. seasonal unemployment
   C. structural unemployment
   D. cyclical unemployment

Continued...

31. Find which of the following is **NOT** an advantage of international trade.
    A. Higher efficiency due to competition.
    B. Greater market for local products.
    C. Insufficiency and lack of resources to produce product.
    D. Higher standard of living in the country.

32. Absolute advantage is found by comparing different producers' _____.
    A. opportunity costs
    B. payments to land, labour, and capital
    C. input requirements per unit of output
    D. locational and logistical circumstances

33. Kelly and David are both capable of repairing cars and cooking meals. Find which of the following scenarios is **NOT** possible.
    A. Kelly has a comparative advantage in repairing cars and David has a comparative advantage in cooking meals.
    B. Kelly has an absolute advantage in repairing cars and David has an absolute advantage in cooking meals.
    C. Kelly has a comparative advantage in repairing cars and in cooking meals.
    D. Kelly has an absolute advantage in repairing cars and in cooking meals.

34. Suppose Haiti has a comparative advantage over other countries in producing sugar, but other countries have an absolute advantage over Haiti in producing sugar. If trade in sugar is allowed, Haiti _____.
    A. will import sugar
    B. will export sugar
    C. will either export sugar or export sugar, but it is not clear from the given information
    D. would have nothing to gain either from exporting or importing sugar

35. A quota is _____.
    A. a tax placed on imports
    B. a limit on the quantity of imports
    C. a tax on exports to other countries
    D. an excess of exports over imports

36. Country A limits other nation's exports to Country A to 1,000 tons of coal annually. This is an example of a(n) _____.
    A. protective tariff.
    B. export subsidy.
    C. import quota.
    D. voluntary export restriction.

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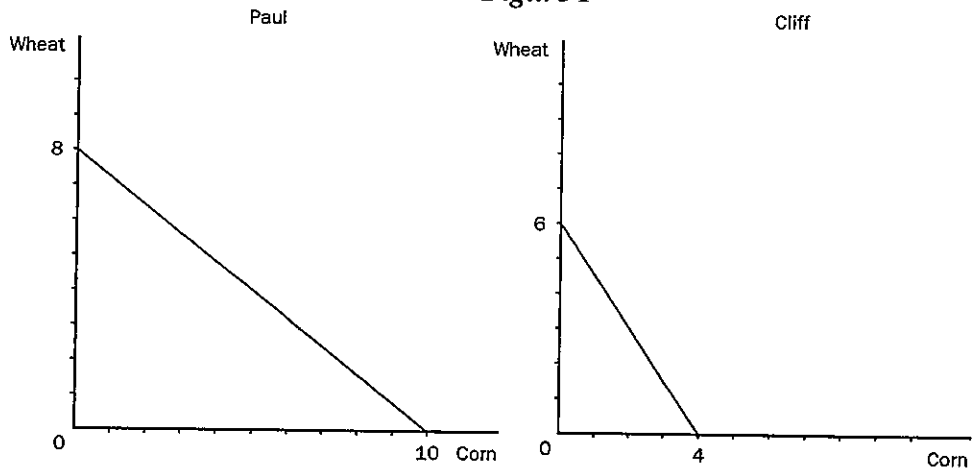
Figure 1



37. Refer to ***Figure 1***. The opportunity cost of 1 bushel of wheat for Cliff is _____.
    A. 1/3 bushel of corn
    B. 2/3 bushel of corn
    C. 1 bushel of corn
    D. 3/2 bushels of corn

38. Find which of the following would contribute to a Malaysian balance of payments deficit.
    A. Kawasaki builds a motorcycle manufacturing plant in i City, Shah Alam.
    B. Malaysian tourists travel in large numbers to Europe
    C. a wealthy Mexican citizen builds a mansion in Ipoh
    D. Zaire pays interest on its debt to Malaysia

39. The current account in a nation's balance of payments includes _____.
    A. its goods exports and imports, and its services exports and imports
    B. changes in its official reserves
    C. purchases of foreign assets, and foreign purchases of assets
    D. all of the above

40. Find which section of the balance of payments includes transactions related to the purchase and sale of financial assets between residents and non-residents.
    A. Current account
    B. Capital account
    C. Trade account
    D. Service account

Continued...

41. If the French buy American computers, they _____.
A. demand U.S. dollars and supply French francs
B. demand U.S. dollars and demand French francs
C. supply U.S. dollars and demand French francs
D. supply both U.S. dollars and French francs

42. The lower the dollar price per yen, the _____ Japanese goods are for Americans and the _____ Japanese goods American will buy; thus _____ yen will be demanded.
A. more expensive; more; fewer
B. more expensive; fewer; fewer
C. less expensive; more; more
D. less expensive; more; fewer

43. Under a fixed exchange rate system, if Ringgit Malaysia is **overvalued** then there exists _____.
A. a shortage of ringgit
B. a surplus of ringgit
C. the equilibrium level of ringgit
D. There is not enough information the answer the question

44. Suppose the same basket of goods costs $100 in the U.S. and 50 pounds in Britain. According to purchasing power parity, estimate the nominal exchange rate.
A. 2 pounds per dollar
B. 1 pound per dollar
C. 1/2 pound per dollar
D. None of the above is correct

45. The nominal exchange rate is about 1.8 Aruban florin per dollar. If a basket of goods in the United States costs $40, estimate how much a basket of goods in Aruba must cost for purchasing power parity to hold.
A. 18 florin
B. 36 florin
C. 72 florin
D. 90 florin

46. Appreciation of the Canadian dollar will _____.
A. intensify an existing disequilibrium in Canada's balance of payments
B. make Canada's exports less expensive and its imports more expensive
C. make Canada's exports more expensive and its imports less expensive
D. make Canada's exports and imports both more expensive

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47. A portable vacuum cleaner in Malaysia costs RM450. In the U.S. it costs 100 US dollars. Find which of the following is **correct.**
   A. If the nominal exchange rate is RM4.50 per U.S. dollar, purchasing power parity holds.
   B. If the nominal exchange rate is RM1 per U.S. dollar, purchasing power parity holds.
   C. If the nominal exchange rate is RM0.22 per U.S. dollar, purchasing power parity holds.
   D. Purchasing power parity does not hold at any of the above exchange rates.

48. Find which of the following will generate a **demand** for country X's currency in the foreign exchange market.
   A. Travel by citizens of country X in other countries
   B. The desire of foreigners to buy stocks and bonds of firms in country X
   C. The imports of country X
   D. Charitable contributions by country X's citizens to citizens of developing nations

49. Other things the same, if the exchange rate changes from 115 yen per dollar to 125 yen per dollar, the **dollar** has _____.
   A. appreciated and so buys more Japanese goods.
   B. appreciated and so buys fewer Japanese goods.
   C. depreciated and so buys more Japanese goods.
   D. depreciated and so buys fewer Japanese goods.

50. Purchasing-power parity implies that the nominal exchange rate given as **foreign currency per Ringgit Malaysia** must rise if the price levels in _____.
   A. foreign countries rise
   B. Malaysia rises
   C. both countries rise
   D. both countries fall

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